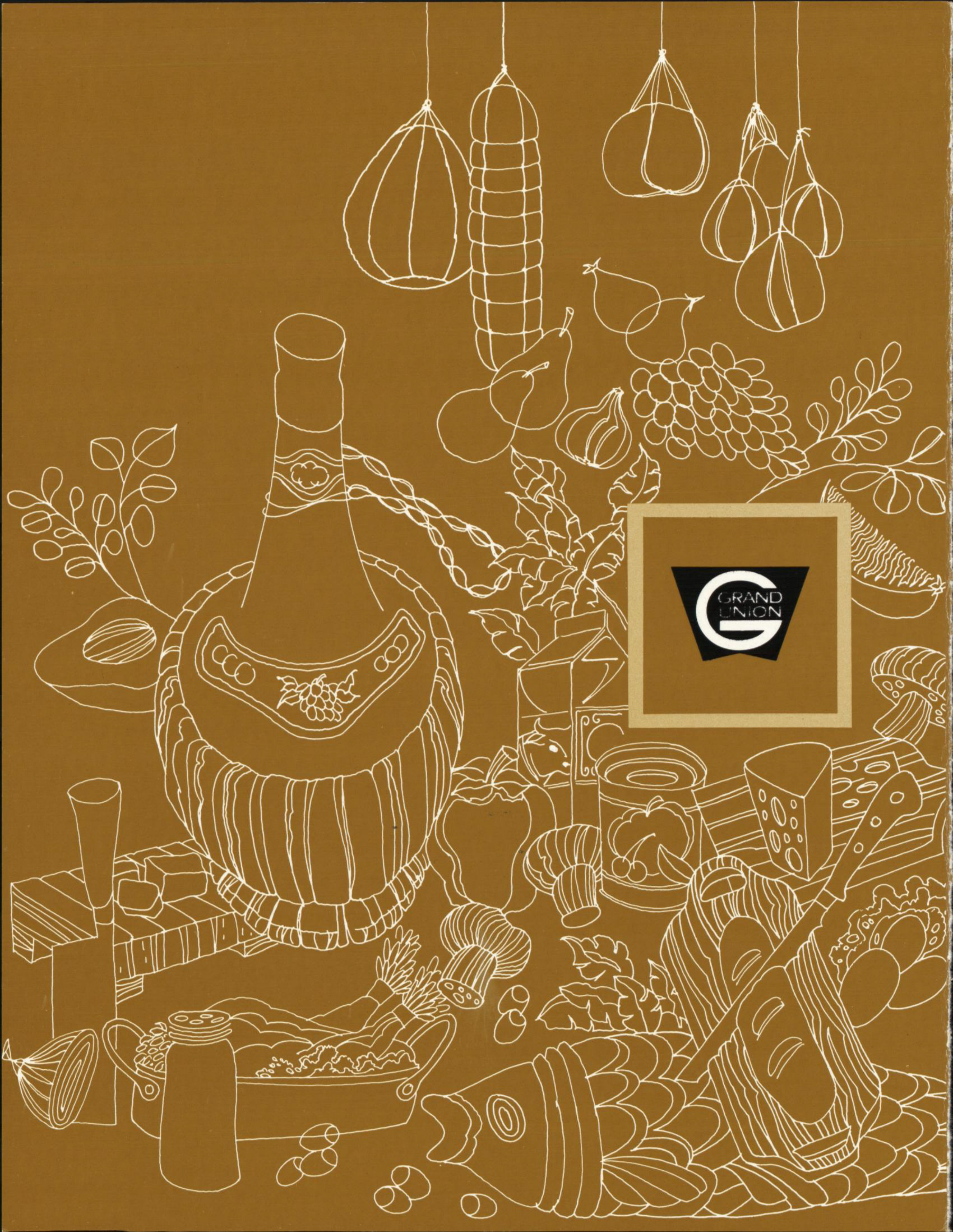
Annual Report 1973

THE GRAND UNION COMPANY


GRAND
UNION

ANNUAL
REPORT
1973

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ANNUAL MEETING:

The annual meeting of stockholders of The Grand Union Company will be held at 10 A.M. on Monday, June 24, 1974, in the Bergen and Passaic Rooms of the Marriott Motor Hotel, Interstate Route 80 and Garden State Parkway Interchange 159, Saddle Brook, New Jersey.

A notice of the meeting, a proxy statement and form of proxy are being mailed with this report to each stockholder of record as of May 22, 1974.

Townspeople and officials mingle with Grand Union executives and managerial personnel at a special pre-opening party at one of the company's new 33,600-square-foot Family Centers. Ten evening previews like this were held in 1973 to give influential cross-sections of that many communities a first-hand look at the company's latest concept in one-stop food and general merchandise retailing.

FINANCIAL HIGHLIGHTS 1973

	1973	*1972*
Sales	$1,493,969,089	$1,379,681,445
Operating income	14,974,180	15,789,289
Income before income taxes and extraordinary items	2,954,387	15,676,554
Net income	2,309,387	8,379,413
Income per common share	.35	1.30
Cash dividends per common share	.80	.80
Net income as a percent of sales	.15	.61
Working capital	97,028,144	65,652,561
Ratio of current assets to current liabilities	1.87 to 1	1.70 to 1
Average common shares outstanding	6,358,932	6,358,143
Number of common stockholders	14,445	15,682

CHAIRMAN'S LETTER

For the eleventh consecutive year, a new high in sales was achieved in 1973. Sales for the 52-week fiscal year ended on Saturday, March 2, 1974 were $1,493,969,089, an increase of 8.3% over sales of $1,379,681,445 in the 53-week 1972 fiscal year.

Pre-tax operating income was $14,974,180 for the 52-week 1973 fiscal year. On a comparable basis, operating income for the company's 53-week 1972 fiscal year ended March 3, 1973, was $15,789,289. After unusual and non-operating items of $12,019,793 and after income taxes of $645,000, net income was $2,309,387, or 35 cents per share. For the 1972 fiscal year, income was $8,991,554, or $1.40 per share before extraordinary items, and net income was $8,379,413, or $1.30 per share after an extraordinary net charge of $612,141. The company's income taxes in fiscal 1973 were significantly lower as a per cent of income than in the prior year because of the relative effect of the investment tax credit and deductions for dividends received.

The unusual and non-operating items incurred in fiscal 1973 included a charge of $10,903,100 for losses anticipated to cover the planned disposition of certain of the company's retail facilities and certain investments, $1,248,339 in interest expense net of interest income and dividend income, and $131,646 in miscellaneous net non-operating income. This compares with net non-operating charges of $112,735 during fiscal 1972.

Once we complete our accelerated program of closing unprofitable stores, the company will be in a stronger position to improve its profit structure. The closing of these facilities means that we will free additional capital for other areas of more profitable investment.

With respect to the expected loss from liquidation of certain investments, the company invested a portion of its excess funds last year in fixed income securities which have fallen in value as interest rates rose. Any further losses or possible gains from future disposition will depend upon market conditions existing at the time of disposition.

Operating income for the 13-week fourth quarter came to $6,505,162, compared with $5,566,101 in the 14-week 1972 fourth quarter.

The entire charge of $10,903,100 for losses anticipated to cover planned disposition of certain of the company's retail facilities and certain investments was deducted from 1973 fourth quarter operating income. The net result was a loss of $2,479,846, or 39 cents per share for the quarter. In the 1972 fourth quarter, net income after taxes was $3,323,719, or 52 cents per share.

The earnings trend of the company's supermarket division, which accounts for more than 90% of company sales, was very encouraging during the 1973 fourth quarter. Indications are that the favorable trend is continuing in the first quarter of 1974.

Sales during the 13-week 1973 fourth quarter totaled $396,008,192, a 2.4% gain over the 14-week 1972 fourth quarter sales of $386,879,655.

The American economy experienced last year, and is still experiencing, a rate of inflation unprecedented in the last 20 years. At Grand Union, we took a number of positive steps to combat inflation and its side effects. We maintained a good sales posture by pricing competitively and adopting some new advertising approaches. Manpower requirements of the company were closely studied and productivity increased as an offset to higher labor costs. All expenses have been thoroughly analyzed and continued reductions will be made as good business sense dictates.

With federal wage and price controls ended as of April 15, 1974, the food retailing industry is again operating under the traditional laws of supply and demand. Despite extreme increases in many items of cost, we believe that 1974 overall will be a better year for food retailing than was 1973. It is only through the encouragement of food production and free operation of the laws of supply and demand that we can insure a reasonable income for producers and distributors and adequate food supplies at reasonable prices.

Looking to the future, 49 stores are planned for 1974: 22 supermarkets, 25 E-Z Shop convenience food stores and 2 Grand Catalog Showrooms. When all are open and have been operating for a year, they are expected to contribute an estimated $100 million in annual sales. During the year, we will substantially enlarge nine existing supermarkets and completely renovate another 34. The total capital expenditure for development in 1974 will be about $23,000,000. Three-quarters of this will be spent on supermarkets. Last September, we concluded arrangements for a term loan in the amount of $35,000,000 with The Prudential Insurance Company.

Cavenham Limited, a major publicly-held food manufacturing and retailing company headquartered in England, last December completed a successful tender offer at $19 per share for 3,200,000 shares, or approximately 51%, of Grand Union's outstanding common stock. Through its affiliation with Cavenham, Grand Union is now an integral part of an international retailing, manufacturing and distributing organization with a combined annual sales rate of more than $3.3 billion and operating in fourteen Atlantic Community and European Common Market nations. In January, 1974, I was elected a Director of Cavenham Limited.

Thomas C. Butler, Chairman since 1966, resigned as a Director on March 26, 1974. To recognize Mr. Butler's outstanding record of service to our company during the last 56 years, he has been named Chairman Emeritus. This is a new post, created in his honor. On the same date, I was elected Chairman and Chief Executive Officer. Helen G. Canoyer, former Dean of the School of Home Economics at the University of Massachusetts and a Director of Grand

Charles G. Rodman, center, Chairman of the Board and Chief Executive Officer, confers with Grand Union's top management team, clockwise, James Wood, President and Chief Operating Officer; Glynn H. Coryell, Financial Vice President; Earl R. Silvers, Jr., Administrative Vice President and Secretary; Thomas R. Doyle, Senior Vice President; Emerson E. Brightman, Executive Vice President.

Union since 1966, also resigned from the Board. We thank her for her many years of excellent service.

Laurence A. Tisch, a Director since 1963, has elected not to stand for re-election as a Director and I want to express our genuine appreciation for his contribution to the Company over the years.

James Wood, Deputy Managing Director of Cavenham, and Chairman of its Retail Group of more than 2,700 stores, was elected President and Chief Operating Officer effective April 1, 1974. He had previously been elected a Grand Union Director. Mr. Wood, who has had many years of successful experience in food retailing will examine every aspect of our Grand Union operations and carry out any reorganization which may be found to be necessary. We are confident that this will lead in due time, to a marked improvement in the profitability of the company.

In addition to Mr. Wood, four other new Directors were named to the Board. They are James M. Goldsmith, Cavenham's Chairman; Martin J. Condon, President and Chief Executive Officer of the Conwood Corporation of Memphis, Tennessee, and a Director of Cavenham; Bowman Gray III, President of General Occidental, Inc., of Trenton, New Jersey, and Michael L. Haynes, a Regional Director of Cavenham.

A number of other significant management changes occurred during fiscal 1973. Glynn H. Coryell, formerly a Vice President for Standard Brands Foods, was elected to the newly-created post of Financial Vice President with overall responsibility for financial planning, accounting and data processing.

Charles H. Haight, Treasurer, retired early this year after 46 years with the company. He was cited by the Directors in a special resolution "for his devotion, loyalty and service to the company since 1928". John H. Milbank, Controller for the past 14 years, was elected Treasurer to succeed Mr. Haight. Lee E. Sappington, formerly Vice President and Controller of the Curtiss Candy Company, a division of Standard Brands, Inc., succeeded Mr. Milbank as Controller.

Along with other major food chains, we were asked last year by the Chairman of the Senate Commerce Committee and the Chairman of the Senate Subcommittee for Consumers to let them know what we are doing to fulfill its corporate responsibilities in such areas as consumer relations, environmental protection, product quality assurance and energy conservation. We compiled and submitted a full-scale reply. A copy of our "Corporate Responsibility Report" is enclosed with this Annual Report.

Finally, I want to express my appreciation to the more than 27,000 Grand Union employees for their continued loyalty and hard work. Our company's prospects for the future are very good.

Sincerely,

Charles G. Rodman

Charles G. Rodman
Chairman of the Board

May 24, 1974

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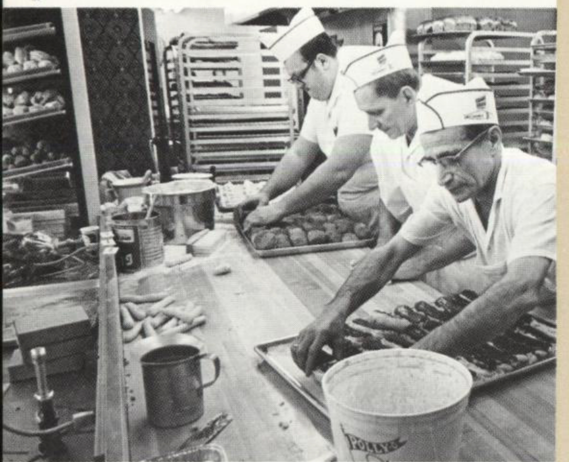

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(a) An attractive colonial mansard roof highlights the facade of this Grand Union Family Center in Oakland, New Jersey.

(b) In-store bakeries, such as this one in Ramsey, New Jersey, are becoming a regular feature in more and more Grand Union supermarkets.

(c) Grand Rx prescription departments in most Grand Union Family Centers add to the appeal of these large stores.

(d) Thirty-three E-Z Shop convenience food stores similar to this one in Saddle Brook, New Jersey, are now in operation.

REVIEW OF OPERATIONS

SUPERMARKET DIVISION

Performance of the Supermarket Division in 1973 was considerably better than in 1972. There was marked improvement in the fourth quarter and this is expected to continue.

The up-swing began in the third quarter after the government lifted the stringent freeze on all food retails imposed by Phase III½ and shifted to more reasonable Phase IV margin control guidelines which allowed greater flexibility in pricing.

The division weathered a nation-wide trucking strike and critical energy crisis in good shape and is now adapted to perform well in the nation's new control-free economic climate.

Throughout the year, management continued to reduce controllable expenses and instituted new efficiencies in inventory control and store ordering procedures. Great emphasis was placed on increased productivity in all departments.

Capital improvement in 1973 included the opening of 21 new supermarkets for a total of 605,017 square feet of new space. Twelve of the stores were large-volume Family Centers with 33,600 square feet each. Twenty-nine older, unprofitable stores with a total of 390,968 square feet were closed.

Plans for 1974 call for opening 22 new food stores, including 14 Family Centers. The majority of the latter will include a Grand Rx pharmacy. By the end of fiscal 1974, the company expects to be operating 41 Family Centers with more than 1,300,000 square feet of retail space. Forty-nine Grand Rx pharmacies are scheduled to be in operation.

During the year, we will continue our program of renovating and enlarging our existing stores.

Grand Union was the focal point of national attention during two crucial periods during 1973. The first occurred in April during a week-long nation-wide consumer boycott of meat. Our company pledged to hold prices at a level of at least 10 cents per pound below allowable government ceiling retails for a month. This initiative on our part helped to prevent a complete breakdown of the vital farm-to-table meat supply line that a prolonged and successful consumer boycott could have caused.

The second event occurred during the summer. Uncontrolled prices for cattle at the farm level and rigid price controls for meat at the processing and retail levels caused the closing of numerous packing houses. Faced with dwindling supplies of beef, Grand Union arranged to purchase cattle directly from ranchers, contracted for custom slaughtering and arranged direct shipments to its distribution centers. While many food chains had limited supplies of beef during the late summer months, Grand Union maintained almost normal supply levels.

Recognizing its obligation to provide customers with quality food at affordable prices, Grand Union developed and began merchandising a variety of new meat and grocery items. These include Beef Pattie Mix, ground beef with textured vegetable protein for a product that is less expensive than regular ground beef but just as nutritious, textured vegetable protein meat extenders, and private label ground beef and tuna skillet dinner mixes with textured vegetable protein added.

E-Z SHOP DIVISION

The E-Z Shop convenience food store division nearly doubled in size during the year, growing from 18 units to 31 in operation. It also expanded from its original base in New York State, opening stores for the first time in New Jersey. As fiscal 1974 began, the division had six new stores under construction and leases signed for another eight. The overall expansion plan for the year calls for 25 new E-Z Shops.

Stores in the division open more than a year continue to grow in sales volume at a very satisfactory rate. To date, the energy crisis has had no appreciable

effect on E-Z Shop sales. In fact, reduced driving — if continued — may help sales as people turn more to convenience in food shopping and patronize stores nearer home.

GRAND WAY DIVISION

A year which last Spring appeared to hold great promise for the discount department store industry turned out to be disappointing. The Grand Way Division was among many general merchandise operations to feel the effects of inflation and the sharp impact of the gasoline shortage in the Northeast.

Existing store sales, which were running 14 per cent ahead during the early months of 1973, softened substantially during the latter half as the rate of inflation accelerated, consumer resistance to higher prices increased and driving was curtailed.

A two-month freeze on retail prices in late summer was followed by a resumption of mandatory category margin price controls in September. These strict controls did not permit a sufficient adjustment in margins to cover increased costs of labor, supplies and utilities.

While results in 1974 will depend to a great degree upon an improvement in the economy, the elimination of price controls on department store type goods should permit substantial margin recovery.

However, in order to release capital for more profitable uses, the decision has been made to consolidate the division into a group of the most profitable stores. This will involve closing a number of units and assigning the leases or subleasing the premises. Provision has been made in fiscal 1973 results for the anticipated losses involved in such consolidation.

TRIPLE-S BLUE STAMPS

Triple-S Blue Stamps, distributed by the company's wholly-owned Stop and Save Trading Stamp Corporation, continue to be a viable and highly effective promotional tool. They are now given to customers in 84% of Grand Union supermarkets. During 1973, distribution of Triple-S Blue Stamps was instituted in 27 Grand Union stores in Vermont, Massachusetts and New Hampshire. This completed a plan developed several years ago to gradually phase out other stamps that were being given in some company stores.

To complement the stamp changeover, Triple-S opened four new redemption centers in fiscal 1973. It plans to open two additional units in 1974. Currently, 64 redemption centers are in operation.

GRAND CATALOG SHOWROOMS

The Grand Catalog Showroom division grew substantially during its second year. Twelve new showrooms were opened in five states in 1973. Another was acquired in St. Louis, Missouri, along with the Atlas Jewelers Co. Grand Catalog sales reached projections for the year.

Two more new showrooms are planned to be opened in 1974 bringing the total to 20 units. A central warehouse facility is planned to be in operation this Fall which will improve control over inventories. Nearly one million new catalogs featuring the latest in housewares, appliances, cameras, watches and jewelry items will be distributed in the Fall. In addition to 33 leased jewelry departments in Grand Way and other general merchandise stores acquired last year as part of the Atlas Jewelers purchase, seven more departments were added during 1973.

The units exceeded their sales projections for the year. They should show further improvement during 1974, and during the current year the profit potential of the division will be carefully analyzed.

OTHER DIVERSIFIED ACTIVITIES

Grand Properties Company, organized last year as a new division, is responsible for the purchase of real estate and construction of company-owned Grand Union supermarkets and other facilities.

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(e) First day shoppers take advantage of bargain prices on shirts at the opening of the newest Grand Way general merchandise store in Latham, New York.

(f) Hundreds of people lined up last year to shop on opening day at the new Grand Catalog Showroom in Pequannock, New Jersey.

(g) Anthony D'Andrea, left, and Louis Sansone of the company's Mount Kisco, New York, Distribution Center, admire their safe driving jackets with Rocco Q. Lopardo, Operations Vice President in charge of warehousing and trucking.

(h) Debbie Sisco operates a fork lift truck at the recently-opened S & G Distributors warehouse in Ramsey, New Jersey.

Grand Properties is now involved in the development of five new Grand Union supermarkets. It also has two E-Z Shops under construction and is processing permits to build three others.

North American Equipment Corporation, wholly-owned manufacturer of materials handling equipment, reached its annual sales projections during 1973 in spite of critical shortages of steel and bearings. To handle growing sales volume, North American recently expanded its facilities in Kenilworth, New Jersey by more than 50 per cent.

Demand for North American's time-tested Quik-Pik gravity storage and selection systems, widely used in the warehouses of large manufacturing and distributing companies, continues strong. An initial sale of its new and revolutionary Logic-Flow automatic pallet handling system has been made to a major food corporation.

CONSERVING ENERGY

Conservation of energy and resources has had a high priority at Grand Union for a long time. A 700-member energy and resource conservation task force is implementing a wide range of conservation measures on a continuing basis through all Grand Union facilities.

Each of the company's more than 27,000 employees has been asked to participate in the total program to conserve energy both at work and at home. Customers and the general public have been asked to cooperate in the national energy conservation program through every facility for communications at the company's command.

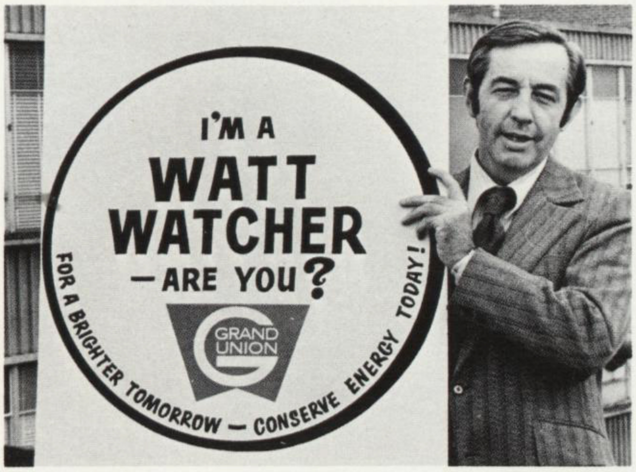
CONSUMER AFFAIRS

The Department of Consumer Affairs was expanded to bring consumer thinking closer to store level operations.

In the Fall, Grand Union became one of the first food chains to provide nutrition information on the labels of its own brand of food products. The first product to carry this new information was non-fat dry milk. Ultimately, most of the company's more than 1,200 private label food products will provide nutrition and other relevant consumer information on their labels.

A major store-level "Consumer Information Program" was introduced early in 1974 in most divisions of the company. The program provides Grand Union shoppers with a continuing flow of information on such topics as unit pricing, open dating, meat buying and toy safety.

Grand Union is nearing completion of the voluntary institution of a price per measure program (unit pricing) throughout the chain. Almost all perishable and semi-perishable private label items are open dated for freshness and rotation.



(i) Placard being held by James F. Kernan, Director of Mechanical Engineering and Utilities, sums up his role as Grand Union's Energy Conservation Commissioner.

(j) Miss Jean F. Judge, right, Director of Consumer Affairs, reviews consumer response to a new program with, from left, Mrs. Kathy LaPier, Consumer Affairs Representative for the New York Region; Mrs. Sandra Sullivan, Consumer Affairs Representative in the Washington Division, and Mrs. Joyce Loding, Assistant Director of Consumer Affairs.

CONSOLIDATED STATEMENTS OF INCOME and REINVESTED EARNINGS

The Grand Union Company and Subsidiaries

	Fifty-two weeks ended Mar. 2, 1974	*Fifty-three weeks ended Mar. 3, 1973*
Sales	$1,493,969,089	$1,379,681,445
Cost of sales	1,177,441,589	1,086,729,820
Gross profit	316,527,500	292,951,625
Operating and general expenses:		
Salaries and wages to employees in store operations	145,173,109	136,926,512
Other selling, administrative and general expenses (note 6)	156,380,211	140,235,824
	301,553,320	277,162,336
Operating income	14,974,180	15,789,289
Other (income) and expense:		
Provision for store closings (note 10)	9,039,000	—
Write down of preferred stocks (note 8)	1,864,100	—
Dividend income on investments	(698,600)	(151,342)
Interest (income) expense, net	1,946,939	(175,142)
Other (income) expense, net	(131,646)	439,219
	12,019,793	112,735
Income before income taxes and extraordinary items	2,954,387	15,676,554
Income taxes (notes 1 and 2)	645,000	6,685,000
Income before extraordinary items	2,309,387	8,991,554
Extraordinary items (note 10)	—	612,141
Net income	2,309,387	8,379,413
Reinvested earnings, beginning of period	50,476,713	47,287,205
	52,786,100	55,666,618
Less cash dividends:		
Common, 80¢ per share	5,083,550	5,082,979
Preferred, $2.25 per share	102,230	106,926
	5,185,780	5,189,905
Reinvested earnings, end of period	$ 47,600,320	$ 50,476,713
Income per common share (note 1):		
Income before extraordinary items	$ .35	$ 1.40
Extraordinary items	—	(.10)
Net income	$ .35	$ 1.30

See accompanying financial notes.

CONSOLIDATED BALANCE SHEETS

ASSETS

	Mar. 2, 1974	Mar. 3, 1973
Current assets:		
Cash	$ 1,183,892	$ 2,808,981
Temporary cash investments, at cost (approximates market)	5,577,288	3,629,951
Investments in preferred stocks (note 8)	21,953,259	—
Accounts receivable	8,339,285	5,514,461
Inventories (note 1)	153,889,252	127,549,382
Deferred federal income taxes (notes 1 and 2)	8,083,840	4,364,187
Prepaid expenses and operating supplies	6,304,055	5,602,873
Properties to be sold within one year (note 1)	3,598,319	10,398,569
Total current assets	208,929,190	159,868,404
Property, at cost (note 1):		
Land	5,548,560	4,531,189
Buildings	7,377,158	6,640,090
Fixtures and equipment	150,546,175	133,472,385
Leasehold improvements	36,522,060	34,317,379
	199,993,953	178,961,043
Less, allowances for depreciation and amortization	92,480,293	83,079,123
Net property	107,513,660	95,881,920
Cost in excess of amounts of net assets at dates of acquisitions (note 1)	7,411,998	7,411,998
Other assets and deferred charges	2,155,112	1,620,234
Total assets	$326,009,960	$264,782,556

See accompanying financial notes.

LIABILITIES

	Mar. 2, 1974	Mar. 3, 1973
Current liabilities:		
Accounts payable and accrued liabilities	$109,457,147	$ 90,875,115
Federal income taxes (notes 1 and 2)	2,443,899	2,040,728
Note payable	—	1,300,000
Total current liabilities	111,901,046	94,215,843
Notes payable (note 5)	45,000,000	—
Subordinated debentures, 4⅛%, due 1978	485,000	533,000
Liability for unredeemed trading stamps (note 6)	3,700,000	3,000,000
Deferred federal income taxes (note 2)	12,379,814	11,807,215
Deferred investment tax credit (note 2)	450,700	717,900
Other noncurrent liabilities and reserves	583,476	751,612
	$174,500,036	$111,025,570

STOCKHOLDERS' EQUITY

	Mar. 2, 1974	Mar. 3, 1973
4½% cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued 45,584 and 50,123 shares, respectively (note 3)	$ 2,279,200	$ 2,506,150
Common stock, $5 par value, authorized 9,000,000 shares, issued 6,609,078 shares (notes 3 and 4)	33,045,390	33,045,390
Additional paid-in capital (note 3)	74,236,471	74,469,495
Reinvested earnings (note 5)	47,600,320	50,476,713
	157,161,381	160,497,748
Less, treasury stock at cost (note 3)	5,651,457	6,740,762
	$151,509,924	$153,756,986
Total liabilities and stockholders' equity	$326,009,960	$264,782,556

See accompanying financial notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

The Grand Union Company and Subsidiaries

	Fifty-two weeks ended Mar. 2, 1974	*Fifty-three weeks ended Mar. 3, 1973*
FUNDS PROVIDED:		
Income before extraordinary items	$ 2,309,387	$ 8,991,554
Charges to income not affecting working capital:		
Depreciation and amortization	15,775,847	13,938,000
Deferred income taxes and investment tax credit	305,399	497,000
Provision for stamp redemptions (non-current portion)	3,700,000	3,000,000
Other	375,000	362,500
Working capital provided from operations	22,465,633	26,789,054
Extraordinary items affecting working capital	—	(612,141)
Long term borrowings	45,000,000	—
Book value of securities sold	—	2,673,850
Book value of property sales and reductions	2,539,478	6,173,741
	70,005,111	35,024,504
FUNDS USED:		
Dividends	5,185,780	5,189,905
Property additions	29,947,065	22,331,091
Reduction in long term debt	—	1,300,000
Purchases of company's preferred and common stocks	15,681	1,706,558
Non-current portion of stamp reserve becoming current	3,000,000	2,800,000
Other changes, net	481,002	856,415
	38,629,528	34,183,969
Increase in working capital	$31,375,583	$ 840,535
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$(1,625,089)	$(7,281,172)
Temporary cash investments	1,947,337	(6,843,900)
Preferred stocks	21,953,259	—
Accounts receivable	2,824,824	(471,492)
Inventories	26,339,870	19,542,468
Deferred federal income taxes	3,719,653	881,825
Prepaid expenses and operating supplies	701,182	2,234,811
Properties to be sold within one year	(6,800,250)	6,860,471
	49,060,786	14,923,011
Increase (decrease) in current liabilities:		
Note and accounts payable and accrued liabilities	17,282,032	16,050,943
Federal income taxes	403,171	(1,968,467)
	17,685,203	14,082,476
Increase in working capital	$31,375,583	$ 840,535

See accompanying financial notes.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

(a) Principles of Consolidation: The consolidated financial statements include the accounts of the company's subsidiaries, all of which are wholly owned. Cost in excess of amounts of net assets at dates of acquisition arose from acquisitions prior to November 1, 1970. The company does not believe that the excess has diminished in value and accordingly is not amortizing such amount.

(b) Inventory Valuation: Inventories are valued principally at the lower of average cost or market, using the retail method for store inventories.

(c) Properties to be Sold Within One Year: Properties expected to be sold within the ensuing year under sale and leaseback arrangements are classified as current assets.

(d) Depreciation: Depreciation is computed, principally on the straight-line method, to amortize the cost of depreciable properties over their useful lives.

(e) Pre-opening Costs: Pre-opening costs of new stores and carrying charges incurred for land held for development or sale are expensed as incurred.

(f) Income Taxes: Income taxes are provided on revenue and expense transactions included in the determination of financial statement income. Where such transactions are included in the determination of taxable income in a different year, such as the acceleration of depreciation, the resulting tax benefits are deferred. Current investment tax credits are being taken into income as the related assets are placed in service.

(g) Trading Stamp Revenue and Expense: The company records stamp revenue and provides for estimated cost of redemption at the time of issuance, based on periodically reviewed operating experience.

(h) Net Income per Share: Net income per share of common stock is based on the average number of shares of common stock outstanding during the period after giving effect to dividends on preferred stock. Outstanding stock options do not enter into the computation because they do not have a dilutive effect.

(i) Stock Option Plans: Transactions under the terms of the stock option plans are considered capital transactions and have not resulted in any charge to income. Income tax benefits related to stock issued under the plans are credited to additional paid-in capital.

(2) Income Taxes:

Income tax expense includes:

	1973	1972
Federal income taxes:		
Currently payable	$ 3,069,000	$5,644,000
Deferred	(3,147,000)	408,000
Amortization of deferred investment tax credit applicable to 1967 and prior years	(267,000)	(307,000)
State and local income taxes	990,000	940,000
	$ 645,000	$6,685,000

Federal income taxes include provision for taxes on income earned in Puerto Rico and the Virgin Islands, which income has been effected at 48%.

Deferred taxes result from the following timing differences:

	1973	1972
Excess of depreciation charges for tax purposes	$ 588,000	$ 768,000
Difference between liability provided and payments made for pension costs	(298,000)	(306,000)
Difference between liability provided and payments made for vacation salaries	(38,000)	(147,000)
Difference between liability provided for catalog costs and expenses claimed for tax purposes	71,000	(71,000)
Difference between liability provided for disposition of unprofitable stores and expenses claimed for tax purposes	(3,640,000)	—
Other, net	170,000	164,000
	$(3,147,000)	$408,000

Reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for federal and other income taxes is:

	1973	1972
Provision computed at 48% of pre-tax income	$1,418,000	$7,525,000
Increases (decreases) in the provision resulting from:		
Current year's investment tax credit	(1,326,000)	(950,000)
Amortization of deferred investment tax credit	(267,000)	(307,000)
85% dividends received deduction	(285,000)	(62,000)
Capital gains or losses (net) taxed at a rate less than 48%	312,000	—
State and local taxes, net of federal benefit	515,000	489,000
Capital losses not currently deductible for taxes	284,000	—
Other, net	(6,000)	(10,000)
	$ 645,000	$6,685,000

(3) Stockholders' Equity:

	1973	1972
(a) Additional paid-in capital:		
Balance, beginning of year	$74,469,495	$74,471,700
Excess of par value over cost of treasury preferred stock retired	94,411	—
Excess of cost of treasury common stock over amounts received under stock option purchases	—	(2,205)
Excess of cost over market value of treasury common stock issued for a minor acquisition	(327,435)	—
Balance, end of year	$74,236,471	$74,469,495

(b) Treasury stock at cost:

	1973 Shares	1973 Amount	1972 Shares	1972 Amount
Balance, beginning of year:				
Common	285,106	$6,608,223	202,723	$5,042,149
Preferred	4,539	132,539	—	—
Purchases:				
Common	—	—	82,710	1,574,019
Preferred	580	15,681	4,539	132,539
Preferred stock retired	(4,539)	(132,539)	—	—
Common stock issued on exercised stock options	—	—	(327)	(7,945)
Common stock issued for a minor acquisition	(41,952)	(972,447)	—	—
Balance, end of year:				
Common	243,154	5,635,776	285,106	6,608,223
Preferred	580	15,681	4,539	132,539
Total		$5,651,457		$6,740,762

(c) On December 3, 1973, Cavenham (Overseas) Limited purchased 3,200,000 shares of the Common Stock at a price of $19.00 per share and acquired a majority interest in the company.

(4) Stock Options:

1964 Plan

Options are exercisable through December 11, 1974 at prices ranging from $24.25 to $24.50 per share and no further options may be granted. A summary of share activity in fiscal 1973 follows:

	Shares
Options outstanding, beginning of year	68,084
Options cancelled or expired	32,670
Options outstanding, end of year	35,414

1973 Plan

Pursuant to a non-qualified plan approved by the stockholders in May, 1973, the company was authorized to grant to key employees options to purchase 600,000 shares of common stock at option prices equal to at least the fair market value at the date of grant. Options granted become 50% exercisable six months after the date of grant and 100% exercisable one year from the date of grant.

No options may be granted after December 31, 1977 and no shares may be purchased under an option after seven years from the date of grant or after December 31, 1984, whichever date occurs sooner. Options to purchase 149,025 shares were granted during fiscal 1973 at prices ranging from $11.375 to $13.00 and were outstanding at March 2, 1974, of these 71,438 were exercisable. At March 2, 1974 options to purchase 450,975 shares were available for grant.

(5) Notes Payable:

Revolving credit notes dated March 7, 1973 due November 10, 1975	$25,000,000
Promissory note dated September 5, 1973, due September 1, 1993	20,000,000
	$45,000,000

The revolving credit notes bear interest, payable quarterly at the rate of ¼ of 1% above prime, or 9% at March 2, 1974. Under the terms of the Revolving Credit and Loan Agreement, two banks are committed to lend the company prior to November 11, 1975 the principal balance due under the revolving credit notes. These new borrowings (term notes) will mature seven years from the date of the loan.The agreement provides that, upon final payment of the term notes, the average interest rate under the revolving credit and term notes will be limited to 7¾%.

The promissory note is payable to an institutional lender, with interest at 8%. Under the related note agreement, the company has agreed to borrow and the lender to lend an additional $15,000,000 by June 27, 1974. The agreement requires annual repayments of principal from 1979 to 1993 increasing from $1,000,000 to $3,500,000.

Each of the agreements contain certain dividend and other restrictions. At March 2, 1974, approximately $4,200,000 of reinvested earnings was free of such restrictions.

(6) Trading Stamps: In fiscal 1973 the company modified its basis of computing the liability for unredeemed trading stamps by using a statistical sampling study. As a result, operating expenses were increased $1,774,031.

The current portion of the liability for unredeemed trading stamps is included in accounts payable and accrued liabilities and approximates $10,946,000 and $8,940,000 at March 2, 1974 and March 3, 1973, respectively. The long-term portion is separately identified on the Balance Sheet.

(7) Property Leases: The company operates principally in leased stores, distribution facilities and offices and in most cases holds renewal options with varying terms. Many of the leases contain escalation clauses which provide for increased rentals based upon increases in real estate taxes and lessors' operating expenses.

Total rental expense was as follows:	1973	1972
Minimum annual rents on noncancelable financing leases (net of sublease rental income of $984,857 and $1,041,719 for 1973 and 1972, respectively)	$15,427,446	$12,914,025
Minimum annual rents on other leases (net of sublease rental income of $171,078 and $161,190 for 1973 and 1972, respectively)	10,327,308	9,130,360
Contingent rentals on noncancelable financing leases (no sublease rental income)	584,929	405,773
Contingent rentals on other leases (no sublease rental income)	460,474	483,230
Total rental expense	$26,800,157	$22,933,388

Minimum annual rents, not including real estate taxes and additional payments based on percentages of sales, for leases at March 2, 1974 are as follows:

	Financing	Other	Total
1974	$16,254,129	$ 7,803,949	$24,058,078
1975	18,806,287	7,181,096	25,987,383
1976	18,407,434	6,597,921	25,005,355
1977	17,773,265	5,748,781	23,522,046
1978	16,825,652	4,634,368	21,460,020
1979-83	73,939,393	14,201,842	88,141,235
1984-88	55,533,275	4,259,691	59,792,966
1989-93	37,654,742	652,140	38,306,882
Remainder	6,770,523	—	6,770,523

The following sublease rental income has been netted above:

	Financing	Other	Total
1974	$ 970,811	$173,688	$1,144,499
1975	856,431	145,692	1,002,123
1976	639,542	98,192	737,734
1977	553,492	36,750	590,242
1978	404,537	15,750	420,287
1979-83	1,577,789	—	1,577,789
1984-88	583,296	—	583,296

The net present value (based on interest rates existing at the commencement of the lease and ranging from 5.00-10.50% and 5.00-10.50% with a weighted average of 7.93% and 7.56% for 1973 and 1972, respectively) of minimum annual rents on non-capitalized financing leases for land and buildings is $143,356,109 and $148,730,264 for fiscal 1973 and 1972, respectively. Sublease rental income of $3,944,128 and $4,532,173 in 1973 and 1972, respectively,has been netted from these amounts.

On the assumption that all non-capitalized financing leases as defined by the Securities and Exchange Commission were capitalized and amortized on a straight-line basis and interest costs were accrued on the related liability, net income would have been affected as follows:

	1973	1972
Increase in depreciation expense	$ 8,699,641	$ 7,625,350
Increase in interest expense	8,283,692	6,621,782
Decrease in rent expense	15,440,319	13,198,575
Decrease in income tax expense	740,647	503,307
Pro forma decrease in net income	$ 802,367	$ 545,250

Note payable covenants restrict the company from entering into additional leases which will result in annual net lease rentals in excess of 2.75% of consolidated net sales and from the sale and lease back of stores and distribution facilities on which construction has been completed for two years.

(8) Investments in Preferred Stocks: Management has decided to dispose of the investment as expeditiously and economically as possible. Accordingly, the preferred stocks are considered current assets and valued principally at market at March 2, 1974, which is $1,864,100 below their cost. Based on May 10, 1974 market quotations, the market value has declined an additional $1,871,000.

(9) Pension Plan: The company maintains a trusteed pension plan covering all full-time employees except those covered by labor union pension plans to which the company contributes. The company's policy is to fund pension costs accrued. Pension expense was $620,000 and $638,000 for fiscal 1973 and 1972, respectively.

(10) Extraordinary Items and Provision for Store Closings: Subsequent to March 2, 1974 the Company decided to dispose of certain of the Grand Way general merchandise units by sale or liquidation. It is expected that such dispositions will be effected during fiscal 1974. Pursuant to Accounting Principles Board Opinion No. 30 (APB30), the estimated losses in connection with these dispositions ($9,039,000) have been reflected as a separate item in income before income taxes and extraordinary items.

Extraordinary items in fiscal 1972 consist of estimated losses of $1,120,000, net of income tax benefit of $1,120,000, of which $920,000 is deferred, from the closing of five Grand Way general merchandise units less a gain of $507,859, net of $217,654 income taxes, on the sale of 264,874 shares of Mortgage Growth Investors. Had APB30, which prohibits restatement of prior years, been in effect previously, reported net income for fiscal 1972 would have been the same, but income before extraordinary items would have been $7,871,554 ($1.22 per share).

ACCOUNTANT'S REPORT

To the Stockholders and Board of Directors, The Grand Union Company, Elmwood Park, N. J.:

We have examined the consolidated balance sheet of The Grand Union Company and Subsidiaries as of March 2, 1974 and the related statements of income and reinvested earnings and changes in financial position for the fifty-two week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Company and Subsidiaries for the fifty-three weeks ended March 3, 1973.

In our opinion, subject to the adjustment, if any, that may result from the future disposition of certain general merchandise units described in Note 10, the aforementioned consolidated financial statements present fairly the financial position of The Grand Union Company and Subsidiaries at March 2, 1974 and March 3, 1973, and the results of their operations and the changes in their financial position for the fifty-two and fifty-three week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of determining income before extraordinary items as described in Note 10 to the financial statements.

May 24, 1974
520 Broad Street, Newark, N. J. 07102

COOPERS & LYBRAND

TEN YEAR FINANCIAL SUMMARY (Dollar amounts in thousands except for per share figures)

FOR THE YEAR	*1973*	*1972 (53 weeks)*	*1971*	*1970*	*1969*	*1968*	*1967 (53 weeks)*	*1966*	*1965*	*1964*
Sales	**1,493,969**	1,379,681	1,304,411	1,200,831	1,113,374	1,017,413	935,864	836,242	779,683	740,040
Operating Income	**14,974**	15,789	27,291	31,438	33,067	28,748	23,882	21,902	21,573	20,053
Other (income) and expense	**12,020**	112	553	517	181	1,349	1,757	1,598	1,221	1,481
Income before income taxes and extraordinary items (1)	**2,954**	15,677	26,738	30,921	32,886	27,399	22,125	20,304	20,352	18,572
Income taxes (1)	**645**	6,685	12,720	15,180	17,690	14,080	10,745	9,400	9,500	9,000
Income before extraordinary items	**2,309**	8,992	14,018	15,741	15,196	13,319	11,380	10,904	10,852	9,572
Extraordinary items	**—**	612	1,000	—	—	—	—	—	—	—
Net income	**2,309**	8,379	13,018	15,741	15,196	13,319	11,380	10,904	10,852	9,572
Per common share data (2):										
Income before extraordinary items	**.35**	1.40	2.16	2.42	2.30	2.02	1.81	1.74	1.74	1.54
Extraordinary items	**—**	.10	.16	—	—	—	—	—	—	—
Net income	**.35**	1.30	2.00	2.42	2.30	2.02	1.81	1.74	1.74	1.54
Cash dividends (3)	**.80**	.80	.80	.80	.80	.59	.56	.54	.51	.49
Stock dividends	**—**	—	—	—	—	5%	5%	5%	4%	4%
Net income as a percent of sales	**.15%**	.61%	1.00%	1.31%	1.36%	1.31%	1.22%	1.30%	1.39%	1.29%
AT THE YEAR END										
Ratio of current assets to current liabilities	**1.87 to 1**	1.70 to 1	1.81 to 1	1.88 to 1	1.86 to1	2.10 to 1	2.03 to 1	1.97 to 1	1.94 to 1	1.96 to 1
Equity per common share (2)	**23.80**	23.92	23.38	22.15	20.50	19.13	17.50	16.20	15.00	13.77
Number of stores at year end:										
Supermarkets	**531**	539	542	543	534	537	532	531	527	513
Grand Way stores	**23**	23	26	31	31	31	30	30	25	25

(1) For 1966 and prior years taxes on income other than federal were classified as administrative and general expenses and not as income taxes.

(2) Adjusted for common stock dividends.

(3) Dividends on common stock were paid at an annual rate of 80 cents per share in 1969 through 1973 and at an annual rate of 60 cents per share in prior years.

DIRECTORS and OFFICERS The Grand Union Company

DIRECTORS

CHARLES G. RODMAN	*Chairman of the Board & Chief Executive Officer*
EMERSON E. BRIGHTMAN	*Executive Vice President*
MARTIN J. CONDON	*President, Conwood Corporation, Memphis, Tennessee*
JAMES M. GOLDSMITH	*Chairman of the Board, Cavenham Limited*
BOWMAN GRAY, III	*President, General Occidental, Inc., Trenton, New Jersey*
S. WILLIAM GREEN	*Regional Administrator, U.S. Department of Housing and Urban Development*
MICHAEL L. HAYNES	*Regional Director, Cavenham Limited*
IRVING KAHN	*Associate, Abraham & Co., Inc., Securities, New York City*
ROBERT J. McDONALD	*Partner, Law firm of Sullivan & Cromwell New York City*
RAFAEL PICO	*Vice Chairman, Banco Popular de Puerto Rico San Juan, Puerto Rico*
ARTHUR J. QUINN	*President, The New York Bank for Savings*
ARTHUR ROSS	*Executive Vice President and Managing Director, Central National Corporation, Investments, New York City*
EARL R. SILVERS, JR.	*Administrative Vice President, Assistant to the President and Secretary*
LAURENCE A. TISCH	*Chairman of the Board of Directors, Loews Corporation*
JAMES WOOD	*President and Chief Operating Officer; Deputy Managing Director, Cavenham Limited*

OFFICERS

CHARLES G. RODMAN	*Chairman of the Board & Chief Executive Officer*
JAMES WOOD	*President and Chief Operating Officer*
EMERSON E. BRIGHTMAN	*Executive Vice President*
THOMAS R. DOYLE	*Senior Vice President*
EARL R. SILVERS, JR.	*Administrative Vice President and Secretary*
GLYNN H. CORYELL	*Financial Vice President*
ERNEST H. BERTHOLD	*Vice President*
PATRICK A. DEO	*Vice President*
J. BARRON LEEDS	*Vice President*
RALPH D. LYTLE	*Vice President*
JOHN D. O'CONNELL	*Vice President*
JAMES G. POULOS	*Vice President*
CARYLE J. SHERWIN	*Vice President*
VINCENT J. VENINATA	*Vice President*
JOHN H. MILBANK	*Treasurer*
LEE E. SAPPINGTON	*Controller*
BAXTER T. DUFFY	*Assistant Secretary*
FREDERICK H. GUNTSCH	*Assistant Secretary*

Transfer Agent

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, N.Y. 10015

Registrar

Chemical Bank
20 Pine Street
New York, N.Y. 10015

THE GRAND UNION COMPANY

THE GRAND UNION COMPANY □ GENERAL HEADQUARTERS □ ELMWOOD PARK, NEW JERSEY 07407
TELEPHONE: (201) 796-4800

531 Grand Union Supermarkets

The Grand Union Company operates 531 supermarkets in 11 states along the Eastern seaboard and in Puerto Rico and the U.S. Virgin Islands. The company has 256 food stores in New York, 64 in New Jersey, 53 in Florida, 31 in Connecticut, 30 in Vermont, 28 in Virginia, 24 in Maryland, 17 each in New Hampshire and Puerto Rico, five in Massachusetts and two each in Pennsylvania, West Virginia and the U.S. Virgin Islands.

23 Grand Way General Merchandise Stores

The Grand Way general merchandise store division of the company operates a total of 23 stores. These include 11 in New York, four in Connecticut, three in New Jersey, two in Florida and Pennsylvania and one in Vermont. During 1973, Grand Way opened two new stores in New York State: An 85,000-square-foot unit in Latham, outside of Albany, and a 70,000-square-foot unit in Vestal. Three other Grand Ways were completely renovated.

30 Grand Union Family Centers;

Grand Union Family Centers are one-stop shopping centers selling food and a large assortment of general merchandise. Grand Union has nine Family Centers in New York and Florida, six in New Jersey, two in Virginia and one in Connecticut, Maryland, New Hampshire and Vermont. Grand Rx pharmacies are a part of most Family Centers. They are also located in some other stores. There are 23 Grand Rx pharmacies in Florida, 10 in New Jersey, six in New York, and one each in Maryland, New Hampshire and Vermont.

64 Triple-S Redemption Centers

The Triple-S Blue Stamp Company, a wholly owned subsidiary of Grand Union, is the nation's sixth largest trading stamp firm. It currently maintains operations in six states, including 34 redemption centers in New York, nine in New Jersey, eight in Florida, five in Connecticut and Vermont and three in Massachusetts.

North American Equipment Corporation

Headquartered in Kenilworth, New Jersey, this wholly-owned subsidiary of Grand Union manufactures materials handling equipment. Among its products are an automatic pallet handling system that is revolutionary in the field of warehouse materials handling, and a gravity-fed visible display, storage and selection apparatus.

31 E-Z Shop Convenience Food Stores

The E-Z Shop convenience food store division continued its rapid expansion during 1973. At the end of the fiscal year, the division had 31 stores in operation in two states, including 27 in New York and four in New Jersey. Further intensive expansion is planned during 1974.

As fiscal 1974 began, the division had six new stores under construction and leases signed for another eight. The overall expansion for this year calls for 25 new E-Z Shops in New York and New Jersey.

18 Grand Catalog Showrooms

Twelve new Grand Catalog Showrooms were opened during 1973 and another was acquired with the purchase of Atlas Jewelers Co. There are now 18 showrooms in operation in six states, including six in New York and New Jersey, three in Connecticut and one each in Missouri, Pennsylvania and Vermont. More new units are scheduled to be opened during 1974.

THE GRAND UNION COMPANY
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